Our mid-year Investment Themes

2025

BNP PARIBAS
WEALTH MANAGEMENT

The bank
for a changing
world

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Peak global uncertainty

Into the geopolitical maelstrom

A radically changing economic environment

The global economic growth outlook has worsened since the beginn ing of 2025 following the inauguration of Donald Trump and subsequently his announcements of US import tariffs. The greatest impact on both US and global economic activity stems from the prevailing environment of extreme policy uncertainty and volatility. Households and companies alike are struggling to plan for the long term against this backdrop, which is slowing down consumption and investment.

Tariff war versus capital war

Since Donald Trump's sweeping import tariffs announcement on 2 April, financial markets have struggled to digest the likely short- and longer-term economic impacts both on the US and on global economies. Stock, bond and currency market volatility has all surged alongside the US and global economic policy uncertainty indices, given an average US import tariff rate that could potentially increase to as much as 28% (according to the Yale Budget Lab as of 15 April, before accounting for likely consumer behaviour changes) from a pre-Trump 2.0 average of just 2.5%.

Even after expected shifts in US domestic consumption to avoid the highest-tariffed goods, the average tariff rate is likely to settle at 18%, the highest rate since 1934. The Yale Budget Lab estimates that this hike in consumption taxes represents a loss in purchasing power of about USD 2,200 per US household. US real GDP growth would then be cut by 1.1%, potentially pushing the US into at least a technical recession (two consecutive quarters of negative GDP growth) later this year, with a consequent rise in unemployment.

Is US exceptionalism really over?

For nearly a century, the US dollar has been the dominant currency in international financial transactions. Today, the greenback is used for 90% of all FX transactions by volume and still represents 58% of official central bank FX reserves.

Moreover, US Treasury bonds had served as a pre-eminent store of value, at least up to now. But we see a risk that the Trump administration's tariff actions and other high-pressure tactics could threaten the end of this US dollar hegemony, or as a minimum, a diminished global role in the years ahead.

Given the recent geopolitical volatility unleashed by Trump since January and the pressure exerted on Fed Chair Jerome Powell, the status of US Treasury bonds as risk-free assets has come into question.

Repatriation of foreign capital should continue to put pressure on the US dollar against major trading pairs including the euro and yen. Investors have invested heavily in US financial assets for over 10 years and today own 18% of the US equity market and 33% of US Treasury bonds.

Lower interest rates and energy costs to soften the blow of policy uncertainty

Central banks around the world continue to reduce their benchmark interest rates in a bid to soften the economic slowdown as underlying inflation rates return close to target. Indeed, the European Central Bank is expected to lower its deposit rate to 1.75% in the second half of this year.

Lower energy costs are a second supporting factor for the global economy, as both crude oil and natural gas prices drift lower on the back of increasing global production.

Key trends which will influence the path for the global economy and financial markets over the remainder of this year include i) the growth of broad money, an indicator of macro liquidity; ii) an easing of planned US import tariffs after the conclusion of bilateral trade deals which are reducing geopolitical uncertainty, and iii) a potential ceasefire in Ukraine that could lead to even lower energy prices.

We invite you to go further by reading the details of our four investment themes.

1 Europe is back

The European Union is embarking on a historic fiscal expansion, led by Germany's EUR 500 billion infrastructure plan and the European Commission's EUR 800 billion ReArm Europe initiative. Moreover, we expect deregulation to accelerate. These measures aim to boost competitiveness, productivity and economic growth, and should offset potential headwinds from higher US tariffs, and they largely stem from the recommendations made in the 2024 Draghi report.

As a result, we have revised up our 2025 & 2026 eurozone GDP growth forecasts, with the fastest and largest gains expected in Germany. Long-term potential growth has also been revised higher.

Key investment opportunities lie in sectors supporting European resilience and autonomy, including defence, energy, technology, and healthcare, with a focus on European companies and ESG integration.

Strategic Industries

Security & Defence	Semi, Tech, Robot, AI & Digital
Energy Independence & Sustainability	Infrastructure, Advanced Materials & Chemicals
Critical minerals & Processing	Supply Chain Logistics
Healthcare	Mobility & Transportation
Banking	Food, Agriculture & Water treatment

OUR RECOMMENDATIONS

A multi-asset theme focused on:

- Equities: 130+ European stocks in 10 different sectors, offering direct or indirect exposure to the sovereignty theme.
- Funds and ETFs: 19 solutions provide diversified access to companies driving Europe's autonomy.
- Bonds: around 60 issuers support the funding of strategic projects.
- Structured Products: for tailored risk-return profiles.

KEY RISKS

- Policy delays: implementation of fiscal stimulus and deregulation may face political or bureaucratic hurdles, slowing economic impact.
- Inflation uncertainty: higher spending could trigger more persistent inflation than expected, potentially leading to tighter monetary policy.
- External shocks: escalation in US-EU trade tensions or geopolitical events, such as the war in Ukraine, could negatively affect sentiment and growth.
- Structural barriers: slow progress in reforming the operational framework for European energy markets or in reducing internal trade barriers could limit the effectiveness of policy changes.

Building on the Draghi report

The March announcements made in respect of Germany and the eurozone are based on the recommendations laid out in the Draghi report. The main aim is to improve competitiveness, productivity, and thus economic growth, in the eurozone. A first key recommendation is public investments in infrastructure, energy independence (decarbonisation) and technology. A second dimension is deregulation and coordinated industrial policy, and the third is capital market integration. We are convinced that policymakers have understood the urgency to act and are embarking on that journey.

Seizing the moment

As an investor, the current environment provides a compelling case to embrace the EU Sovereignty theme. The combination of fiscal stimulus, deregulation and defence spending should propel higher economic growth, even despite rising global trade tensions.

We expect the European Central Bank to cut its deposit rate to 1.75% and keep it there until at least mid-2026. This supportive monetary policy, together with fiscal expansion, is creating a favourable backdrop for European growth and financial assets.

We forecast the German 10-year bond yield to remain in the 2.5% to 3% range over the coming years, attracting investors seeking quality bonds. Short-term volatility is likely to be fuelled by uncertainty over US trade policy, particularly the possibility of higher tariffs on EU exports. However, stock market corrections could provide attractive entry points for long-term investors. Progress in the Ukraine-Russia ceasefire talks is another important factor for market sentiment.

Building an EU sovereign portfolio

Investors looking to benefit from Europe's sovereignty theme should focus on European companies (EU, UK, Switzerland, Nordics) and critical sectors for the continent's autonomy and resilience. Ten strategic industries stand out: Security & Defence; Energy Independence & Sustainability; Semiconductors, Technology, Robotics & AI; Critical Minerals & Processing; Supply Chain Logistics; Infrastructure, Advanced Materials & Chemicals; Healthcare; Food, Agriculture & Water Treatment; Mobility & Transportation; and lastly Banks.

Implementation may be achieved through a diversified approach in a number of asset classes.

- Equities: 130+ European stocks have been identified in these sectors, offering direct or indirect exposure to the sovereignty theme.
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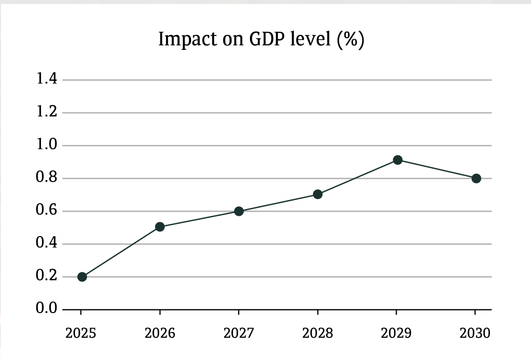
- Bonds: around 60 issuers support the funding of strategic projects.
- Structured Products: for tailored risk-return profiles.

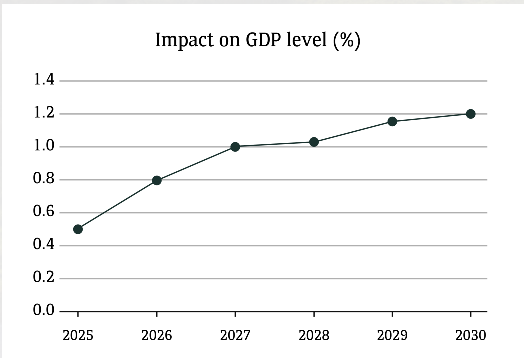
Environmental, Social and Governance criteria should be integrated into the selection process, aligning with the EU's sustainability goals.

A carefully selected investable universe, monitored by our teams of experts, is made up of companies offering goods and services which bridge the gap of identified European deficiencies. Moreover, our solutions enable investors to play a role in this common goal while benefiting from a long-term economic trend. In some countries, clients may invest in this theme through mandates or vehicles managed by our Discretionary Portfolio Management teams.

Impact on eurozone growth (deviation from previous outlook)



Impact on German growth (deviation from previous outlook)



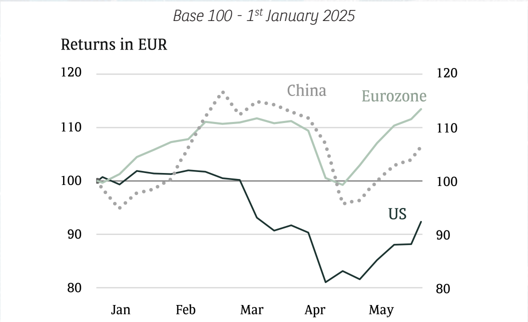
Source: BNP Paribas WM, 6 March 2025

2

Diversify amidst unprecedented uncertainty

Since the end of January, we have witnessed a dramatic reversal in performance of US assets. The US dollar has shed 5% since the inauguration of Donald Trump on 20 January. Moreover, since the end of January, the popular Magnificent Seven group of stocks has fallen by 9%. In contrast, World ex-US stocks have performed far better, at +7% over this period. This underlines the benefits of a diversified set of assets for investors both diversified across currencies but also diversified across regions. We could well be entering a period when the rest of the world is catching up with US markets, like in the years post the 2000 technology bubble. In the aftermath of the tech bubble, non-US stocks, value (or cheap) stocks and foreign currencies all performed far better than the Nasdaq index and the US dollar. Diversification in sources of income is also becoming increasingly important given falling interest rates and bond yields.

European and Chinese stocks lead in 2025, US lag



Source: Bloomberg, BNP Paribas WM, 14 May 2025

OUR RECOMMENDATIONS

A theme focused on alternative assets and solutions outside of stocks, bonds and real estate.

- Alternative income strategies: private credit, structured products
- Trend-following/CTA alternative UCITS strategies
- Low volatility relative and global macro alternative UCITS strategies
- Downside protected strategies, e.g. capital-guaranteed structured products, ETFs
- Precious metals
- Real estate funds (REITs) and value-add real estate

KEY RISKS

The current artificial intelligence mania continues for longer, propelling US large-cap technology companies, and thus the US stock market, to greater outperformance, fuelling a higher concentration of the global stock market.

Trump 2.0: catalyst for trend change

There has been a dramatic shift in US fiscal and foreign policy since January 2025, accompanying Donald Trump's return to the White House. We believe that we are entering a period when the rest of the world is catching up with US markets, like in the years post the 2000 technology bubble. In the aftermath of the tech bubble, non-US stocks, value (or cheap) stocks and foreign currencies all performed far better than the Nasdaq index and the US dollar.

Diversifying sources of income has also become paramount in a context of falling euro and dollar-based savings rates. Investors looking to maintain high rates of reliable income will need to look further afield, for example, at income alternatives in stock markets and alternative assets, as well as structured solutions.

Is US exceptionalism really over?

We believe that President Trump wants a weaker dollar on a structural basis. The greenback is still extraordinarily strong by long-term historical standards. So, the risk of a weaker US dollar represents a significant risk for global investors who may be overexposed to the US dollar and US stocks following the strong performance by both over the last 10+ years.

Equally, when we think of the sustained long-term outperformance of US technology stocks, latterly fuelled by excitement over artificial intelligence, investors may also be overexposed to this very small group of stocks even if they are supposedly invested in a broadly diversified global index The MSCI World index is still dominated by US stocks (71% of the total), a record high. Now that these US exceptionalism trends have begun to reverse, the benefits of reducing US dollar and US tech exposure are much clearer today for international investors.

What are our favoured methods for adding diversification to investor portfolios today?

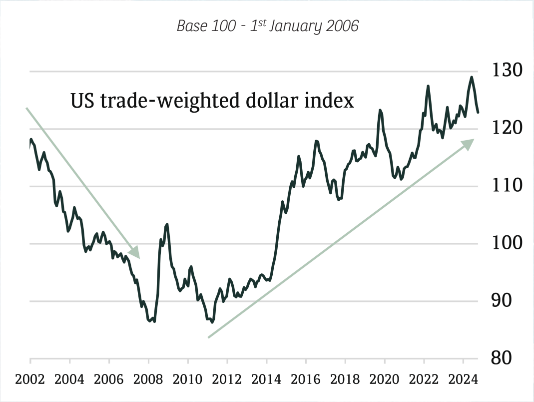
Starting with stock market exposure, we would favour World ex-US stocks to improve regional and currency diversification. In order to achieve exposure to income and income growth, we would advise quality dividend strategies in higher-yielding stock markets, such as Europe, the UK, and even emerging markets.

Note that year-to-date, global bond markets have performed moderately well with positive performance even as the US stock market has been falling, thereby underlining the negative correlation that typically exists between bonds and stocks when stocks correct. We favour higher-yielding corporate bonds in the UK and medium-term government bonds in the US, UK and Germany for diversification purposes. Finally emerging market bonds can also act potentially good yield and diversification option.

Within alternative assets we still like precious metals as a way of diversifying away from the dollar. We like structured solutions to generate higher income at moderate risk. We favour real asset exposure for inflation hedging via both listed and unlisted infrastructure, as well as selected private debt strategies, such as collateralised loan obligations, which offer high yield spreads over traditional listed bonds.

Finally, clients could consider relative value hedge fund strategies which have a low correlation with stocks and bonds including long/short equity, credit and convertible arbitrage.

Risk of a long-term US dollar decline as US exceptionalism fades



World ex US outperforms US stocks in 2025

Source: Bloomberg, BNP Paribas WM, 14 May 2025

3 The new infrastructure imperative

Infrastructure is essential for improving the quality of life in both developed and developing economies, and focuses on four areas: power, water, transport and communication. The private infrastructure funds asset class has performed strongly over the long term. Between 2008 and 2024, private infrastructure funds delivered an average annual return in US dollars of 9.3%. This is a substantial outperformance relative to global stocks and global bonds over these 16 years.

Key drivers for infrastructure growth include i) AI data centre power demand; ii) the German infrastructure spending plan announced in March by the Grand coalition government, and iii) continued emerging market growth of the middle classes who are driving demand for power and clean water, particularly in India and the rest of Asia.

OUR RECOMMENDATIONS

A theme focused on stocks, commodities, real estate and private assets.

- Alternative/indirect investment in AI including data centre real estate, electricity demand growth in smart grids, energy efficiency
- US and EU transport infrastructure
- US energy infrastructure related to LNG
- Clean water production and distribution
- Network security infrastructure to tackle cybersecurity
- Nuclear energy
- Industrial metals, e.g. copper for electricity infrastructure upgrades
- Construction materials sector e.g. cement and concrete

KEY RISKS

- New US government pushing back on infrastructure spending and/or energy transition.
- High fiscal deficits and government debts could limit infrastructure spending.
- Chinese low-cost competition in some segments (e.g. solar, batteries).
- Sensitive to a potential rebound of inflation and hikes in interest rates.

Growing infrastructure needs are driving a new industrial revolution

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Key drivers for infrastructure growth include:

- AI data centre power demand,
- the German infrastructure spending plan announced in March by the Grand coalition government, and
- continued emerging market growth of the middle classes who are driving demand for power and clean water, particularly in India and the rest of Asia.

What are the key long-term drivers for continued infrastructure growth by theme?

We see several key sub-themes underlying this robust trend in infrastructure build out for the next few years:

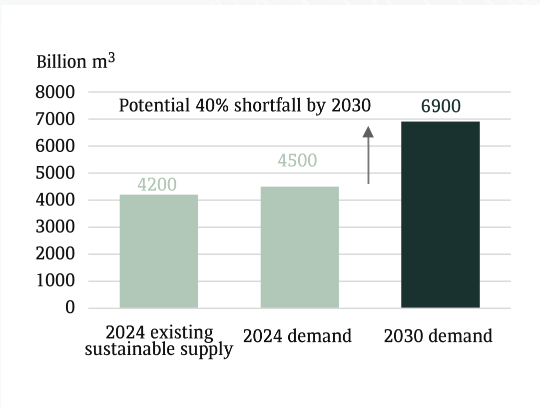
1. AI growth will continue to fuel data centre electricity demand, given that AI large-language models are extremely power-hungry.
2. continued growth in demand for clean water in emerging markets, but also for essential infrastructure upgrades in developed markets, particularly on water pipelines to reduce waste. We also include increased demand for ultrapure water required for semiconductor manufacturing.
3. the electrification of the global economy is driving an increasing penetration of electric vehicles, electrification of buildings with air conditioning and heat pumps.
4. continued development of global air traffic with a 4% growth forecast for the next 20 years according to the International Air Transport Association, will be led by strong growth in the Asia-Pacific region following the strong post COVID-19 air traffic recovery seen over the past few years

What are our favourite ways to invest in infrastructure today?

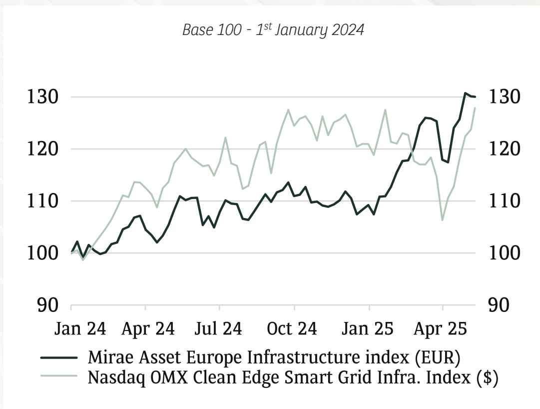
We see four key paths to investing in the global infrastructure growth trend:

1. global listed and private infrastructure stocks, ETFs and funds, including both private infrastructure equity and debt exposure.
2. impact funds focused on key sustainable themes, such as clean water and the circular economy.
3. electrical infrastructure development funds and ETFs to gain exposure to the global electrification and AI data centre power growth trends.
4. essential materials for the infrastructure build out, particularly in the construction, building materials and mining sectors.

Both US Electricity infrastructure and European infrastructure themes benefit



Global shortage of clean water forecast to increase sharply



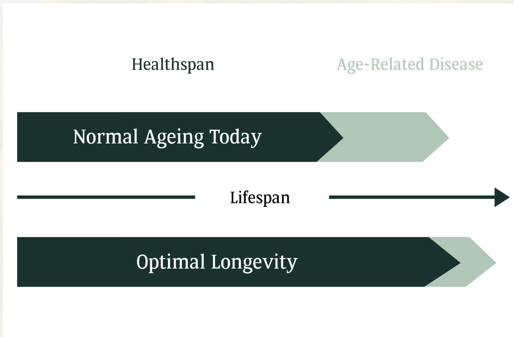
Source: Bloomberg BNP Paribas WM, World Bank 14 May 2025

4
The new focus on living longer in good health

"Health is wealth", as the old adage goes. Several studies in the US have shown that maintaining five healthy habits around diet, exercise, not smoking, drinking alcohol moderately and keeping a healthy body weight can add more than a decade to life expectancy. Today, people in the developed and developing worlds are living longer, especially as rates of smoking and drinking are in decline. That said, we need to focus on healthspan, not just lifespan.

Healthspan is the number of healthy years we live, as opposed to the number of total years we live. Mayo Clinic, a top-ranking network of hospitals, has highlighted that life expectancy has grown faster than healthspan in recent years. Between 2000 and 2019, the global healthspan-lifespan gap grew from 8.5 to 9.6 years on average. We are living longer, but now we need to focus on improving quality of life in later years.

Healthspan: increasing time in good health, not just life



OUR RECOMMENDATIONS

A theme focused on stocks, real estate and private equity:

- Selected pharmaceutical stocks
- Selected biotechnology & medical technology stocks, private equity funds
- Health care-focused real estate funds and REITs
- Health and wellness:
  - Health care technology
  - Health & sustainable food
  - Selected nutraceuticals
- Consumer and service companies that have substantial exposure to seniors
- Financial services: asset and wealth management, health insurance

KEY RISKS

Limits on public health care budgets may limit access to innovative treatments for age-related diseases.

The Good News: we are all living longer

Health is wealth, as the old adage goes. Several studies in the US show that maintaining 5 health habits around diet, exercise, not smoking, drinking moderately and keeping a healthy body weight can add more than a decade to life expectancy.

Focus on healthspan, not just lifespan

Today, people are living longer, especially as rates of smoking and drinking fall. But we need to focus on healthspan, not just lifespan. Healthspan is rather the number of healthy years we live, as opposed to the number of total years we live.

The Mayo Clinic, a top-ranking network of hospitals, has highlighted that life expectancy has grown faster than healthspan in recent years. Between 2000 and 2019, the global healthspan-lifespan gap grew from 8.5 to 9.6 years on average. This gap was particularly wide in the US, with Americans living 12.4 years on average with a disability and sickness. So today yes, we are living longer, but often living more years burdened with disease.

What factors can improve healthspan?

Not smoking or drinking excessively are obvious factors in improving our healthspan, particularly by reducing the risks of cancer and heart disease which are the Western world's biggest killers today.

Better sleep and coping better with stress are further improvements in lifestyle that can help enormously. Furthermore, monitoring through wearables can help measure the quality of our sleep and thus improve it via better sleep hygiene.

Diet is also key. We know that a diet high in sugar, unhealthy fats and ultra-processed foods can lead to increased risk of infection, cancer, inflammation and chronic diseases, such as type 2 diabetes. Hence, the benefits of using food supplements and adopting healthier diets that are rich in natural plant-based foods and low in added sugar. Treatments to reverse obesity and diabetes, such as GLP-1 inhibitor medications, show excellent results in reducing these diet-related health risks.

Finally, in today's world, we can make use of better diagnostics to enable earlier, and thus more effective, medical treatment and better age-related medication. Remember that healthcare prevention is always better (and cheaper) than cure.

How can we profit as investors from a healthy longevity trend?

Firstly, from anti-ageing medication (e.g. anti-obesity drugs) for different types of cancer, and for dementia and Alzheimer's. We see huge progress and new treatments coming to market in the very near future in each of these categories, including preventative healthcare and wearables, for instance.

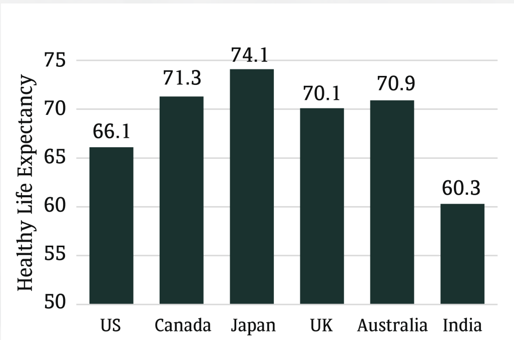
Diagnostics, which give an early warning signal of serious health issues, are improving, and we are seeing an expansion of wearables, for example finger rings to help insomniacs sleep or smartwatches that track stress levels and blood pressure.

Furthermore, we expect high demand for eyeglasses, hearing aids and senior assistance devices, as well as medical devices, such as artificial knee joints.

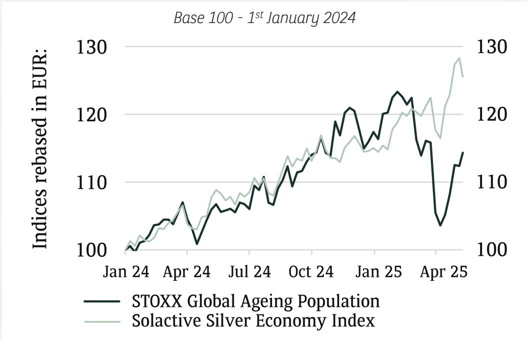
Investment and wealth management should see positive longevity-related growth as we expect people, as they live longer, to tend to work longer before retirement and thus to accumulate wealth for longer.

Finally, we see growing "grey spending power" on travel, restaurants, technology, and insurance which may be tailored to seniors.

Healthy life expectancy: Japan leads the way



Ageing population, silver economy indices perform solidly



Source: Inside Tracker, Bloomberg BNP Paribas WM, 14 May 2025

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